

AGENDA: June 27, 2001

7.2

CATEGORY: New Business

DEPT.: Community Development

TITLE: Charleston East Hotel Project—Issuance
of Request for Proposals

RECOMMENDATION

Authorize staff to proceed with the issuance of the Request for Proposals (RFP) for the Charleston East hotel/conference center site and invite the following hotel developer/operator teams to submit an RFP: Hyatt Development Corporation, Landmark Organization and Lowe Hospitality Group.

FISCAL IMPACT—None.

BACKGROUND AND ANALYSIS

On February 27, 2001, the City Council authorized staff to proceed with a Request for Qualifications (RFQ) process for a portion of the City-owned Charleston East site. The RFQ document (Exhibit A) was designed to solicit conference hotel developer teams interested in developing a project consistent with the North Bayshore Precise Plan. The RFQ was released on March 16, 2001. It was mailed to 315 hotel developers and operators and posted on the City's web site. Press releases were sent to local and national newspapers and professional journals and organizations. On April 4, 2001, the City held a presubmittal conference that was attended by approximately 31 developers and operators. In early May, follow-up calls were made to major developers/operators on the mailing list who had not already initiated contact with the City or attended the presubmittal conference to be sure the appropriate people received the RFQ.

On the May 14, 2001 deadline, the City received development proposals from nine teams with generally excellent qualifications. Attached is a summary of the proposals (Exhibits B-D). The proposals included extensive background information about the teams and their previous work. Copies of all proposals were made available to Councilmembers (Exhibit F). Given the overall weakness in the current economy, this large number of submittals indicates the strength of interest in the Charleston East site from conference hotel developers.

While the qualifications of all the submitting teams are impressive, there are clear distinctions in the degree of responsiveness among the submittals to the information

requested in the RFQ. Further, the qualifications, experience and financial capacity of the proposers were not all equal as discussed below.

The nine proposals were evaluated based on six primary criteria that were communicated clearly in the RFQ:

- Acceptance of Business Terms
- Overall Qualifications of Development Team and Approach to the Project
- Prior Experience
- Attractiveness/Responsiveness of Preliminary Development Concept
- Strength of References
- Overall Financial Strength

One of the business terms discussed by the City Council in detail when Council acted on the RFQ was the requirement for a labor agreement between the hotel operator and the Hotel Employees and Restaurant Employees Union Local 19 prior to entering into a lease agreement with the City (See Page 11 of RFQ).

Because of the Council's interest in promoting positive labor relations and avoiding economic disruption, staff wanted to make the information on labor relations easily available to the Council. Exhibit E is a summary of specific comments from the proposers related to labor experience and acceptance of the City's labor terms. Labor-related references were also checked. The three proposers recommended for the short list were also asked to provide evidence that they have successfully worked with and created labor agreements with labor unions which is included in Exhibit E.

One of the other evaluation criteria required was relevant financial information to demonstrate the proposer's financial capacity to undertake the project. Many of the developers and operators that responded are not publicly traded companies and, therefore, have concerns about their financial information being made public. Proposers were advised in the RFQ (see RFQ, Page 15) that this information could be submitted directly to the City's consultant to maintain confidentiality. Sedway Group received the financial information and then reviewed the results with the City's Finance and Administrative Services Director and Assistant Finance and Administrative Services Director.

Based upon the evaluation criteria, three teams led by Lowe Hospitality Group, Landmark Organization and Hyatt Development Corporation are recommended to be invited to respond to a Request for Proposals. While all nine proposals are impressive, several teams distinguish themselves as having greater potential to develop the high-quality project that Mountain View envisions, with lower risk to the City. The characteristics of the higher- and lower-scoring proposals and incomplete proposals are highlighted below.

General Characteristics of Higher Scoring Proposals—The higher-scoring proposers (Lowe Hospitality Group and Destination Hotels and Resorts, Landmark Organization and Bass's Inter-Continental Hotels and Resorts, and Hyatt Development Corporation and Hyatt Corporation) have more experience in hospitality development; stronger financial resources; a history of equity interest in their development projects; a larger and higher-quality portfolio of market-based precedent projects; and more detailed and higher-quality preliminary project concepts.

General Characteristics of Lower Scoring Proposals—The lower-scoring proposers (Jones Lang LaSalle and Harrison/Hilton Conference Centers, David S. Taylor Interests, Inc./Phelps Program Management, LLC and Starwood Hotels, and Acquest Realty Advisors/Regent Development Partners and Benchmark Hospitality) generally have less experience in hospitality development, less financial resources, a more limited history of equity interest in their development projects, a smaller and lower-quality portfolio of precedent projects, and less detailed and lower-quality preliminary project concepts.

Incomplete Proposals—Three proposals did not submit all the requested information. Tramell Crow Company (Marriott International, Inc.) did not accept the City's business terms. They proposed to be an owner representative for the City which would leave the City with all the development risk. Franklin Croft Group and Hilton Hotels Corporation and Hardin Capital (operator to be determined) did not submit the requested financial information. All proposers that omitted information were contacted and given an opportunity to submit additional material. A key part of the request for qualifications process is to identify teams with the financial resources to implement a hotel project. Without this key information, staff cannot recommend these proposals.

Results of the scoring process and a list of the relevant projects for the three high-scoring proposals are summarized below.

Higher-Scoring Teams

1. **Lowe Hospitality Group and Destination Hotels and Resorts**—This proposal has significant public/private partnership and ground lease experience; has strong financial resources; and is responsible for the development and/or management of such projects as Hotel Del Coronado (692 rooms with 65,000 square feet of meeting space), Tempe Mission Palms Hotel, Tempe, Arizona (303 rooms with 30,000 square feet of meeting space) and Vail Cascade Hotel, Vail, Colorado (291 rooms with 30,000 square feet of meeting space). The proposer has a very strong background in developing and operating unique upscale hotels with significant conferencing capability.

2. **Landmark Organization and Bass's Inter-Continental Hotels and Resorts**—This proposal has extensive public/private partnership experience; ground lease experience; and a strong ability to finance projects that include numerous high-profile projects. Bass Hotels and Resorts is responsible for the development and management of such projects as the Mark Hopkins Inter-Continental Hotel, San Francisco (380-room luxury hotel, over 25,000 square feet of meeting space), Hilton Austin Convention Headquarters Hotel, Austin, Texas (\$275 million project, 800-room, full-service convention center opening in January 2004) and the Hotel Inter-Continental New Orleans (462-room hotel). Bass is proposing to develop an Inter-Continental Hotel on the Charleston East site, the company's highest quality hotel brand. Other brands owned by Bass include Crowne Plaza, Holiday Inn and Stanbridge Suites.
3. **Hyatt Development Corporation and Hyatt Corporation**—Hyatt and Tynan Group both have impressive hotel development and management experience. Hyatt owns and operates a large number of hotels subject to ground leases and has extensive public/private experience, including a recent project where the site was leased from the City of Huntington Beach. Hyatt's strong financial resources give the company a strong ability to finance projects, even during times when development capital is difficult to obtain in the open market. Some of the projects they have completed include: Park Hyatt Chicago, Chicago, Illinois (200-room luxury hotel, 4,700 square feet of meeting space); Hyatt Regency Coconut Point Resort and Spa, Bonita Springs, Florida (450-room, first-class resort hotel, 25,000 square feet of meeting space); and Hyatt Regency Grand Coast Resort, Huntington Beach, California (opening January 2003, 519-room, first-class hotel, 40,000 square feet of meeting space).

While the other proposers are highly qualified, Lowe Hospitality Group, Landmark Organization and Hyatt Development Corporation demonstrated overall that they are at a higher level. Therefore, it is in the best interests of the City to limit the number of proposers to a short list for the following reasons:

- Preparing an RFP is a costly and resource-intensive process for submitting proposers and, therefore, respondents typically wish to have a smaller pool that will increase the likelihood of continuing to the next steps. It is to the City's advantage to avoid a potential situation in which desirable teams "self-select" themselves out of the process due to perceived lower odds of being successful in the RFP phase. The busiest and best developers have the option to invest their effort in other projects if they desire.
- It is desirable to limit the number of proposals so the City can efficiently and effectively use its resources during the RFP evaluation phase. While all proposals have impressive qualifications, there is a clear division between the recommended short list teams and

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other teams. Therefore, it makes sense to select only those teams that show the highest capability to undertake the project.

- Should none of the short-listed proposers be successful in negotiating a ground lease, the City has the option of reopening the process to evaluate one of the impressive, but "lower-ranked," teams not placed on the short list. Therefore, there is great benefit to the City in limiting the size of the short list and relatively little corresponding risk in doing so.

NEXT STEPS

City staff and consultants will notify the hotel developers and operators selected in writing and invite them to submit an RFP immediately after Council approves the short list of developers and authorizes staff to issue the RFP. During this RFP phase of the process, short-listed teams will be interviewed by representatives of the City and asked to submit additional information and a good-faith retainer, including the following:

- Any changes/additions to the development team (equity partners, consultants, etc.).
- More detailed development concepts, including site plans and conceptual renderings.
- Detailed business terms (term of lease, proposed minimum base and percentage rent, time and performance benchmarks, etc.).
- Pro forma assumptions for both the development period and the first 10 years of operations.
- A financing plan.
- A \$50,000 deposit refundable to nonselected proposers.

The developers will be asked to submit their proposals by the end of August 2001. The proposers will be interviewed in September and then staff will bring back a recommendation to the City Council in October 2001 for the preferred hotel developer/operator. Upon the City Council's approval, the City will initiate negotiations with the selected developer/operator.

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PUBLIC NOTICING—Agenda posting.

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Attachments: Exhibit A: Request for Qualifications
Exhibit B: Respondents to RFQ—Charleston East
Exhibit C: Development Team Matrix
Exhibit D: Development Concept Matrix
Exhibit E: Labor Relations Summary
Exhibit F: RFQ Proposals

cc: Mr. Terry Margerum, Sedway Group

Acquest Realty Advisors

Franklin Croft Group

Hardin Capital

Hyatt Development Corporation

Jones Lang LaSalle

Landmark Organization

Lowe Hospitality Group

David S. Taylor Interests and Phelps Program Management

Tramell Crow Corporation